No. 83-443

IN THE

Supreme Court of the United States

October Term, 1983

U.S.S. POLYPROPYLENE DIVISION, A DIVISION OF UNITED STATES STEEL CORPORATION,

Petitioner,

v.

STUDIENGESELLSCHAFT KOHLE m.b.H.,

Respondent.

BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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Counterstatement of the Case

This case solely involves questions of contract interpretation under the law of the State of New York. The jurisdiction of the District Court was based on diversity. (App. A 1, n.1).**

In 1967, Petitioner's predecessor, Novamont, and Respondent's predecessor, Dr. Karl Ziegler, entered into a contractual arrangement (a patent license) incorporating a "Most Favored Licensee" (MFL) clause. This clause required the licensor to disclose to the licensee more favor-

* In conformance with Rule 28.1, the Court is advised that Studiengesellschaft Kohle m.b.H. acts as Trustee for the Max Planck Institute for Coal Research in West Germany.

** "App." references are to the Appendix filed with the Petition.

able royalty provisions of a subsequently granted license and gave the licensee a 90-day option to substitute the new license for its own.*

In 1971, Novamont discontinued payment of royalties under this agreement. In 1972, Ziegler sent it a notice of cancellation. In 1974, the parties reached an accord and satisfaction under which Novamont paid an amount equal to the unpaid royalties, plus interest at a rate of 10% per annum. Under the accord, Novamount was also granted a new license agreement. (App. A 2; see App. A 11).

In 1977, Novamont breached the 1974 license agreement by failing to pay royalties. When Respondent sued, Novamont counterclaimed, alleging breach of the MFL clause found in the *1967* agreement and fraud.

Basically, Novamont asserted that under the MFL clause, Ziegler was required to, and failed to, advise it of various details concerning his dealings with the third parties Diamond Shamrock and Hercules.

Ziegler had licensed Diamond in 1970 and promptly provided Novamont with the royalty provisions of that license agreement. Novamont did not exercise its option to substitute the Diamond license for its own. By a conditional agreement in 1970 and a final agreement in 1974, Respondent settled a claim of past infringement against Diamond in exchange for Diamond speeding up its royalty payments under the license, namely by pre-paying $750,000 in royalties rather than waiting for such royalties to accrue.

* The language of this clause was drafted by Montedison, Novamont's parent at the time. It is reproduced in full in the District Court opinion. (App. B 17).

Both the District Court and the Court of Appeals held that Ziegler fully complied with the disclosure provision of his MFL clause and that under the terms of that MFL clause, Respondent had no duty to further advise Novamont of the terms of the settlement of the claim for past infringement. (App. A 5-6; App. B 27-30).*

Ziegler had granted Hercules a paid-up license in 1972 for $1.6 million and promptly provided Novamont with the royalty provisions of that license agreement. Novamont did not exercise its option to substitute this agreement for its own (at least in part because the principal licensed patent had then recently been held non-infringed in an unrelated action—a decision later reversed on appeal).

The Court of Appeals herein, in its main holding, and the District Court, in its alternate holding, determined that Ziegler had fully complied with the disclosure provision of his MFL clause when he advised Novamont of the royalty terms of this "lump-sum" agreement. (App. A 12-18; App. B 31-33).**

* Novamont also asserted MFL rights growing out of a portion of the Diamond license which was disclosed to it in 1970 (an accrual clause). The District Court granted a set-off to Novamont based thereon. (App. B 30-31). The Court of Appeals overturned this set-off in view of the 1974 accord and satisfaction. (App. A 7-12). Petitioner has not sought review on this matter.

** The Court of Appeals, in its alternate holding, determined that, despite a lack of any obligation to customize the Hercules lump-sum agreement for Novamont, Respondent had made a separate offer to Novamont using the same method of calculation as that used in the generation of the Hercules lump-sum agreement. (App. A 14). The District Court, in its main holding, discussed this separate offer in detail and specifically found that the same 20% discount built into the Hercules lump-sum payment was also built into the alternate lump-sum offer made to Novamont. (App. B 21-23).

Reasons for Denying the Writ

I. The Court Below Merely Followed Settled Principles of State Contract Law

By its express terms, the 1967 license agreement was governed by the law of New York State. Accordingly, in an effort to construe the language of the MFL clause agreed upon by the parties, the court below looked first to the decisional law of New York State. Finding no relevant opinions in its jurisprudence, the court turned to the common law. (See App. A 1, n.1; A 17).

With respect to the Diamond situation, the District Court recognized that MFL provisions similar to those in the instant case had been uniformly held not to apply to the settlement of infringement claims. The court explained the policy to be:

> "to facilitate settlements by not compelling licensors to choose between 1) exacting from infringers royalty payments for the period of infringement equivalent to those paid during the same period by those holding licenses containing MFL clauses and 2) forfeiting the payments made during that period by those licensees." (App. B 27-28).

The Court of Appeals affirmed, noting the settlement of past infringement did not come within the terms of the MFL clause and citing numerous cases in which the courts had refused to stretch MFL clauses to require adjustments based on the settlement of infringement claims. *Raytheon Mfg. Co. v. Radio Corporation of America*, 286 Mass. 84, 190 N.E. 1, 5 (1934); *Universal Oil Products Co. v. Vickers Petroleum*

Co., 41 Del. 238, 19 A.2d 727, 729 (1941); *Rothstein* v. *Atlanta Paper Co.*, 321 F.2d 90, 96 (5th Cir. 1963); *Searle Analytic Inc.* v. *Ohio-Nuclear, Inc.*, 398 F. Supp. 229 (N.D. Ill. 1975).

With regard to the Hercules situation, the Court of Appeals noted that where, as here, a third party was granted a lump-sum license, Novamont had the option, exercisable upon written request within 90 days, for the same pre-paid license, that is, the same lump-sum payment for the same capacity. *Hazeltine Corporation* v. *Zenith Radio Corporation*, 100 F.2d 10 (7th Cir. 1938); *Cardinal of Adrian, Inc.* v. *Amerock Corp.*, 208 U.S.P.Q. 822 (E.D. Mich. 1979), *affirmed by unpublished order*, 698 F.2d 1218 (6th Cir. 1982). (App. A 14-18).

The court rejected as unprecedented and "overstrained" Novamont's efforts to read its MFL clause as mandating a detailed inquiry into the estimates and assumptions that went into the negotiation and calculation of the lump-sum amount paid by the third party and a further customization of that lump sum for the particular productive capacity envisioned by Novamont. (*Ibid.*). The court noted that the *Hazeltine* and *Cardinal of Adrian* cases had refused to read MFL clauses as broad enough to require even the latter.

II. Petitioner's Question No. 1 Is Not Presented for Review as the State Law Applied Below Does Not Stand as an Obstacle to the Accomplishment of Any Federal Statute

In the court below, Novamont claimed only state law rights in seeking an outstretched reading of its MFL clause, citing only New York statutes and no portion of the federal statutes or the constitution. This was in keeping with settled principles that the interpretation of an MFL clause in a patent license is a question of state law, not federal law.

This Court stated the basic principles in *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 262 (1979):

> "Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law. In this as in other fields, the question of whether federal law preempts state law 'involves a consideration of whether that law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress. If it does not, state law governs.' " (citations omitted)*

There is nothing in the interpretation of the MFL clause herein by the Court of Appeals which is inconsistent with federal law, or that stands as an obstacle to the accomplish-

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* Petitioner concedes its MFL counterclaim does not arise under federal patent statutes, noting that its "rights involved here do not come within [the] jurisdiction" of the Court of Appeals for the Federal Circuit (Pet. Br. at 4-5, footnote); put differently, they do not arise "under any Act of Congress relating to patents . . . ." 28 U.S.C. §1338(a); see 28 U.S.C. §1295.

ment of the objectives of Congress. Indeed, there is nothing in federal law that requires that the parties to a patent license even include an MFL clause in their license.

While commonly used, an MFL clause is not a prerequisite to the licensing of a patent, and no one, not even Petitioner, has suggested that it is.

If bargained for, an MFL clause may set forth any scope agreed upon by the parties.

If a licensee desires to be apprised of the settlement terms when the patentee settles a past infringment claim and to have his license retroactively adjusted to equalize his past-paid royalties to the settlement, there is nothing to stop him from bargaining for such terms and drafting appropriate contract language to clearly spell out that such a deal has been struck.

In a similar manner, if a licensee desires to have not only the option of taking the same lump-sum agreement granted to a third party, but also an option on a different agreement based upon the estimates, assumptions and formulas that went into the calculation of the lump-sum agreement, albeit specially patterned to his own desires, he can bargain for this right and clearly spell out the same in the agreement.

Petitioner has cited no cases which in any way restrain the parties' privilege of negotiating and drafting an MFL clause suitable for their own needs.

The patent misuse opinions cited by Novamont are a mere afterthought, raised for the first time in this Court.

On their facts and their law, those opinions have nothing whatever to do with this case.

The same is true for the fraud on the Patent Office cases cited by Petitioner. There is no analogy between requiring candor in prosecuting an application *ex parte* before the Patent Office and requiring a party to a contract to do more than he bargained to do by the plain language of his agreement.

In sum, there is no inherent right to an MFL provision in a patent license. *A fortiori*, where the parties to the license have bargained for and agreed on an MFL provision of a specific scope, there is no federal law which dictates that its scope must be expanded beyond the plain meaning of its language.

III. Petitioner's Question No. 3(a) Is Not Presented for Review as the Court of Appeals Decision Is Not in Conflict With Other Decisions

The Court of Appeals decision below is in accord with all prior decisions on MFL clauses. Among them is the Fifth Circuit decision in *Rothstein* v. *Atlantic Paper Co., supra*, cited and relied upon by both lower courts (App. A 6; App. B 30), but not mentioned by Petitioner.

Shatterproof Glass Corp. v. *Libbey-Owens-Ford Co.*, 482 F.2d 317 (6th Cir. 1973), relied upon by Petitioner, is not in conflict with the decision herein. It differs markedly on its facts. In *Shatterproof*, a consent decree required the patentee to grant licenses under certain patents, so that payments made by the third party, Ford, to the patentee

were really royalties under an implied license, rather than a settlement of past infringement. (*Id.* at 320-21).*

The implied license in *Shatterproof* is analogous to the one found by this Court in *DeForest Radio Telephone & Telegraph Co.* v. *United States*, 273 U.S. 236 (1927). Despite the argument of Petitioner, *DeForest* does not hold that payments for past infringement constitute royalties under a license. To the contrary, it holds that the consent and aiding of the defendant by the patentee spelled out an implied license rather than infringement. (*Id.* at 242).

During the period August 1967 to July 1970, there was clearly no implied license from Ziegler to Diamond Shamrock, as there was in the *DeForest* and *Shatterproof* cases. There was no consent decree requiring Ziegler to grant licenses under his patents; nor was Ziegler aiding and abetting Diamond's infringement. To the contrary, he was suing Diamond's joint tortfeasor, Phillips, for infringement at the same plant.

This apart, even if certain states would choose, under their law of contracts, to interpret contractual language broader than it was interpreted below, this would not present a conflict on a federal question, suggesting resolution by this Court.

* The MFL clause in *Shatterproof* also gave the licensee the benefit of *prior* licenses to third parties. (*Id.* at 321).

IV. Petitioner's Question No. 2 Is Not Presented for Review as the Court of Appeals Did Not Refuse to Resolve Any Dispute or Issue Raised in the Case

Petitioner argues that the Court of Appeals acted in an "astounding" fashion when it "refused to resolve" certain issues growing out of the Hercules lump-sum license. (Pet. Br. 11).

To the contrary, the court completely resolved the dispute concerning the MFL clause as it related to the Hercules license. It held that Ziegler had fulfilled his obligation under the MFL clause when he informed Novamont of the Hercules paid-up license royalty terms. When Novamont did not request these terms within the 90-day time period provided for under the agreement, that ended the matter. (App. A 12-18).

The court rejected Novamont's argument that the ordinary language of the MFL clause should be departed from so as to entitle Novamont to a customizing of the Hercules terms. (App. A 15-17). All prior decisions are in accord, and no conflicting decisions have been cited. (App. A 17-18).

The statement relating to arbitration, referred to by Petitioner, was not made by the court in connection with a refusal to resolve any legal or factual dispute. It was, instead, the culmination of a lengthy analysis showing the unreasonableness of Novamont's position urging departure from the ordinary meaning of the contract language.

V. Petitioner's Question No. 3(b) Is Not Presented for Review as the Court of Appeals Placed No Unreasonable Burden on Novamont

Petitioner's burden of proof discussion is plainly without merit. The assignment of such burden in contract litigation is an issue of state, not federal law.

Further, it is proper and usual to require a party to prove its allegations, rather than requiring its opponent to disprove the same, particularly where, as here, not even a *prima facie* case has been made out.

In any event, the assignment of burden of proof played no role in the determination of this case by the Court of Appeals.

Novamont failed on its counterclaim relating to the Diamond license not because of any burden of proof, but rather because its MFL clause was not broad enough to require adjustment based upon a settlement of a claim for past infringement.

Novamont failed on its counterclaim relating to the Hercules license not because of any burden of proof, but rather because its MFL clause was not broad enough to require an option on any lump-sum agreement other than the specific lump-sum agreement entered into by Hercules.

What Petitioner is referring to in its discussion on burden of proof is simply an alternate holding in the District Court, which went further and indicated that if some special customizing were required of Respondent when it granted a lump-sum license to Hercules, there had been such customizing. (See App. B 38).

Conclusion

For the reasons set forth above, the petition for a writ of certiorari should be denied.

Respectfully submitted,

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